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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: February 23, 1967

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SUBJECT: United States-Italian Aviation Negotiations, Washington, D. C.
Third Session (February 23, 1967; 10:00 a.m.)

DEPARTMENT OF STATE A/CDC/MR
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Mr. Ernest Lister, Dept. of Transportation

Ambassador Caporazza: Yesterday was a beautiful day. We had hoped it would be a good work day for the Italian delegation, but Varalda and I could only visit the National Gallery, and others on our delegation tried to reverse the gold flow. I say this because we hoped to work on your route schedule, but we find the one you gave us Tuesday night about the same as the one before. You used fewer words, and typed the document in a different visual way. I was a little afraid that something of the kind would happen because Mr. Loy did give some indication of this that I did not want to take up at the time. I thought the American delegation would come more to our legitimate point of view. This was not the case. So we have not been able to do any constructive work in our delegation. We must, to use a phrase which my opponent uses often, "at the risk of being repetitious," we must insist that we get a route schedule formulated in a similar way that we have formulated ours.

US revised schedule still too broad.

We feel we are entitled to that, not only to assure reciprocity of presentation, but because you yourselves have raised the problem of valuing the routes. How can we really compare points with bands? We feel anxious to get down to business, which is why we came to Washington, although we would have preferred to have had the meeting in Rome as the coffee is better there. We

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came full of hope and prepared to drink as much bad coffee as we could. I must ask you to consider our request and give us a route schedule specifying the different points beyond and the intermediates which the United States deems necessary to present to us in order to start the negotiations. That is the only way to pave the way to progress.

Mr. Loy: Mr. Ambassador, I think after three days we have come to our first point of agreement and that is the superiority of Italian coffee. From this break-through, I hope we can come to an agreement. But I have to start off disagreeing with you - maybe that is the road to agreement. I guess the disagreement in the broadest sense is on the question whether what we have given you is in the broadest sense a reasonable schedule. You think it is not. We think it is not only reasonable but helpful. The first question, is this a usual document, or is this a terribly unusual document? We think the answer is most clear. We have many agreements like it. For example, let's take the way we have described the intermediate points in Europe. We have agreements with many countries with similar formulation, Austria, France, Turkey, and a number of others. We have a number of agreements in which we name continents. We have a whole raft of agreements which are much broader than the descriptions are here, Belgium, Chile, Greece, India, Iran, Israel, Japan and others. We have indeed very few agreements where we name only cities. We have an agreement of this sort with Canada and Mexico, where we think quite exceptional considerations exist because they are neighboring countries. We have an old agreement with Czechoslovakia specifying cities but it is not operative. We have the UK agreement. That is all. So I simply cannot agree, in fact I disagree strongly, with the idea that the document we gave to you is in any sense out of the main stream of international agreements as we have them.

Proposed US schedule not unusual

Second, it is your notion that our schedule is in some way not reasonable because it is not reciprocal to yours, and they don't look alike. I can easily say that I consider your proposal unreciprocal in the way reciprocity is important to us, and that is with respect to value. I don't think you have given us reciprocity to consider, and in fact, the last three days you haven't tried to tell me why it is reciprocal or how it can be modified to make it more so.

Italian schedule not reciprocal on values

Third, on the question of specificity, you know this goes to the whole root of the question. It is clear that any one with a map and a good lawyer (and we both have them) could write an agreement naming

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all the points with great specificity. It might take a lot of words, but then the question is, what does that do for us? Does it really help you? Well, if the answer is yes, then, although I insist that is a somewhat mysterious exercise to embark on, we might agree to embark on it. If you have in mind a specific list in which our rights are substantially smaller than they are in this description, then, of course, we are concerned on two grounds. One is that we increase the disparity of values, and, two, we do run into a problem. That is, we are not anxious to describe a route in such a way that the changing of one point in Africa or in Asia, or indeed in Eastern Europe, becomes a matter of negotiation with the Italian Government. You say you don't want to be restrictive, but if we name Istanbul maybe we would want to substitute Karachi. We might want to make other stops instead of the ones specified. Let us say, for example, that we would want India, but someday we may want to substitute Karachi for Delhi. We might want to stop at Iran, but maybe someday Iraq, or it might even be Yemen or Kuwait. You end up naming many many points. I think we have worldwide interests. We are not here nor are we prepared to do much limiting of those interests as we see them. In a sense I don't think of that as being a very sound direction.

Specificity would not be helpful

On the question of evaluation, we have been working with this kind of description in the past, both with your country and with others and find it quite possible to arrive at an evaluation. So have the other governments in these agreements. One can talk about the value of the opportunities, or one can talk about the historical value of the operations, or a combination of both. One could recognize the realities of international air service and realize that a route between here and Italy stopping at eleven different points is not a route operated by airlines. We are not operating in the dark. We have had operations for twenty years. I would say that, in our opinion, it is possible to find a value for the routes proposed in our Document #3.

Ways of evaluating routes

The theme of what I have said has been essentially that we are somewhat puzzled and disappointed by your unwillingness to work with a proposal which we consider reasonable. I would say our puzzlement is somewhat increased by the reciprocal proposal made by you. It seems to us that what we have proposed is in terms of value roughly equivalent to what we have now. What you have proposed to us multiplies, I don't know by how much, the value of what the Italian carrier now enjoys in the present agreement. Even if we were to agree that we could grant to you in a new

Italian route requests greatly expanded

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agreement rights which have an additional value to the rights now enjoyed by Italy, we certainly could not agree to the kind of disparity that is presented by your proposal as compared to ours. So I don't think it is unfair to ask you gentlemen why we should consider the proposed exchange that you have put on the table. How do you go about comparing your proposal to ours, or comparing it to your present situation.

It must be clear, and I do not believe this is really subject to dispute, that your proposal represents an increase of great value over your present rights. Our proposal represents little, if any, increase for our side. It seems to me that one way to begin is to have you explain to us on what basis, or on what rationale, we could consider this kind of a trade, much less a trade where our values are reduced by a significant measure through a limiting or elimination of certain of the rights we now have. I would appreciate your enlightening us on the approach or of the rationale that underlies your proposition.

Reference to Italian presentation in Rome

Ambassador Capomazza: Gentlemen, I think I, too, have found another point of agreement with Mr. Loy, besides the coffee, and that is that we are both disappointed. I am very disappointed at his statement. I will ask General Santini to answer the more technical question raised by Mr. Loy. Before I do that I would like to underline our reservation that we insist on having a new and different document from the US delegation. In his very disappointing statement, Mr. Loy overlooked what I said in Rome, to explain the background of our thoughts which brought us to denunciation. Many of the gentlemen here were not in Rome. Perhaps it would not be useless to read a few of the sentences from which I worked in Rome. After having reviewed the history of the agreement, and our many misunderstandings, I said that we look upon a new agreement as a well balanced instrument, with concessions fairly divided between the two parties. In other words, as an instrument which recognizes reciprocity and provides an exchange with beyond rights for Italy too. In the course of our discussions we also agreed that the reciprocity must not of necessity be visual, but it should contain beyond rights for Italy too. We claim the right of favored nation treatment not only for obvious political reasons and the interests of Alitalia but because Alitalia is one of the best customers for your aircraft. All of our future plans involve US-built aircraft. What will we do with these big planes? I said "favored nation", not "most favored nation". I recognize that the latter cannot be

Alitalia buys US aircraft

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used in aviation matters. We consider that Italy offers one of the most favorable geographic positions in the world as a potential air traffic center. For that reason we feel fully entitled to favored treatment. We are prepared to pay the price for this. In fact we have already paid the price for many years. Now I will ask General Santini to speak.

General Santini: I have the impression that our conversations are the same as what we have had in the past. We had two days of meetings in Rome, and today is the third day we have met here in Washington. I would like to define the situation clearly from a technical standpoint, if possible, and to comment on the strangeness to which Mr. Loy made reference.

Italy doesn't want to restrict US carriers

Mr. Loy still talks about the rights which the Americans have had. He said our schedule of routes has an increased value, whereas he maintains that your routes as presented to us have only a small increase in value. I would like to establish clearly again, and confirm, if necessary, what the Ambassador said in Rome and here. As far as we are concerned, we do not want to restrict the operations of the American carriers. If I am not mistaken, I have understood that Mr. Loy in Rome, on a specific request by the Ambassador, answered that the United States was happy with what they had. That is, that you were happy with the rights that you could exploit. We have had some differences of opinion regarding the old agreement. I would like to clarify that if Mr. Loy said he was happy with the rights the American carriers had, I would like it to be clear that we were not happy with the rights the American carriers had. The misunderstanding arose over the undetermined beyonds.

I should like to say that the Italian point of view is that at this particular time in negotiating a new agreement it is necessary to know not only what beyond points you wish but also to weigh and balance the rights throughout the route schedule. You have found it strange that we have insisted so much on finding out the points on your route schedule. If we do not know these points, don't know the objective that the Americans want to achieve through this agreement, we cannot evaluate it. We don't know whether we have asked too much or too little, whether you have asked too much or too little. In other words, I think it is necessary to obtain a schedule of routes that is clear and precise, which we have asked of you. Mr. Loy has talked about inconveniences that could occur with a schedule of routes that

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would specify route points; that if you wish to change points, we would have to come to an agreement with you. I cannot guarantee this, but in the past the United States has been able to change many points. We have had to amend the agreement. Our policy is that of increasing traffic. Our country is one that needs a lot of passengers, and it is because of this that we are open in all of our concessions.

Italy would permit route changes

Mr. Loy has had occasion to study our schedule of routes. He has said it is ambitious, we have asked too many points, have asked intermediate points more valuable than those you have. I have not been able to tell him anything because it is impossible to make evaluations on the basis of your two documents that have been presented.

I would also mention something that is not new to members of your delegation. We have talked about the value of the intermediate points. We don't know what the Americans will request. If we should make an evaluation of what has been requested, you would say that the intermediate points we have asked are points that have a larger value than yours. I am not revealing any secrets. We operate through London, but not more than nine times a week. Through Paris we don't operate at all. We have an intermediate point in Montreal. I believe we have four or five weekly frequencies, but it is not a point that could be operated as many times as we would want. So, in the evaluation of the points requested by the two delegations, this would have to be taken into consideration.

Italy is restricted at intermediate points

Mr. Loy has said that he was puzzled by our proposition. I must say we cannot evaluate your puzzlement nor can we evaluate your route schedule. I know you have some other agreements that are not specified, but you must understand that we too have a series of agreements with many countries of the world and we have definite points. The only agreement we have with no determined points is with the United States. Another consideration to be made is our agreement with the UK. It may be of interest to you that we have a Bermuda agreement with the UK, but since 1956 there is a predetermination, of all our confidential memoranda with the UK, with reference to routes, frequencies, capacity and aircraft for both sides.

Other Italian Agreements are specified

I only want to add to what the Ambassador has said, that this request for a schedule of routes is a request that we need in

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order to be able to work with you and find a point of agreement with you. With the knowledge of your desires, point by point, we would be able to know what we can give you.

Mr. Loy: Mr. Ambassador, I think General Santini's comments were useful and I certainly agree with him that it is a disappointment that to some extent the discussions we are having have some flavor similar to that of some past discussions. I think there is merit to that proposition. That is one of the things I had in mind when I said I was concerned about where we were going and how it was going to end. General Santini said that the reality of Italy's ability to serve is limited by restrictions on the frequencies. I want to say one more thing about this question of your inability to evaluate our request in the form in which we framed it. Let me say first that our calculation was done in a manner which was comparable to that used by the Italian Government, at least as reflected by our discussions of November 1965. In evaluating the total value to the US carriers of the US agreement between Italy and the United States, of the total value, about 80 percent for our carriers comes from service between Italy and the United States, and about 20 percent for our carriers from service which we call fifth freedom service, including intermediate and beyond points. So immediately the degree of variance possible must be based on historical analysis. This seems to be highly relevant, in reality, also in order to take into account our ability to use intermediate and beyond rights granted us. Historical facts which are available to both of us immediately show it to be clear that the effect of various beyond and intermediate descriptions in the US route schedule on the overall picture is limited in value terms.

US operations to Italy are 80 percent third and fourth freedom

The second thing I would like to say is this: You insist on a new document which is more specific to help you evaluate what US routes would accomplish. I would be interested to know what the Italian delegation would do with such a document, or how would it appraise the value of a point, say Beirut? Let us say that in our route schedule we include beyond rights to Beirut. Explain to us how you would go about working with that fact in evaluating our beyond route to Beirut. I would ask another question about your route proposal. I note in your Route 4 that you propose service beyond the United States to Mexico and then to Panama. In Route 3 you propose service beyond the United States to Tokyo. Just for information and clarity, what does that mean in terms of airline operating

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rights and procedures? Would it mean that it would be possible to sell a ticket in Houston to go to Mexico and then to Panama? Would it mean that if the service on another route of the Italian carrier was touching Panama and then let us say went on to Lima or Caracas, would it be possible to sell a ticket in Houston that would go Houston-Mexico-Lima-Caracas?

Would Italy sell tickets beyond Panama and Tokyo?

Similarly, is it your idea that in Route 3 it would be possible to sell a ticket in San Francisco or Los Angeles to go to Tokyo and then beyond to Italy? If so, how? I think in our analysis of your service it would be useful if we had some idea what is intended by the description in the document you transmitted to us.

General Santini: Mr. Loy has said the economic value of the route that is used by American carriers is 80 percent third and fourth freedom traffic and 20 percent fifth freedom. I must say we are not in agreement with you. We do not have an electronic calculator that can give us data with reference to 1966, but we can quote your 1965 data. Data for 1965 permits me to say that the percentage you have mentioned is not correct. I have percentages that refer to the traffic between Rome and the United States or between Milan and the United States on the part of the US carriers. This goes as far as 65 percent third and fourth freedom whereas the intermediates and beyonds are 45 percent. If you are interested I could also give you some percentages in values, perhaps 1 or 2 percent off, regarding what Italy has operated between the United States and Italy and what has been carried from the United States to intermediate points. These percentages are what you have mentioned - 80 percent between the United States and Italy and 20 percent between the United States and fifth freedom points.

Santini quotes 1965 data

One other thing you said: you asked how we calculate points beyond. I am against doing calculations based on indefinite data. Perhaps we may come to an agreement on how to calculate these, how to calculate traffic that one American carrier could take from Rome to Beirut. I am against this because these are based on factors that are subjective, but if you have some guidance or can indicate a method we would be happy to calculate them with you.

You have also asked to know whether on Route 3 which talks of routes between the United States and Tokyo, and Route 4, routes between the United States-Mexico-Panama, whether we intend to

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sell tickets from US points to Mexico and beyond to Tokyo and beyond. I think this is a naive question. In going to Tokyo we would connect with some of our other services.

Alitalia would sell connecting services

Mr. Loy: Could I ask a couple of questions for clarification? First, the percentage of US traffic to which you refer, I take it you meant 65/35 percent?

General Santini: No, 55/45 percent. In 1965 TWA and PAA sold between Milan and Rome and the United States, tickets for 149,623 passengers for a total of $32,894,245. From Rome to Milan to intermediate and beyond points they sold and transported 197,051 passengers for a total amount of $14,295,527. If I have made a mistake in expressing percentages, I want to beg your pardon but I believe that more or less the percentages are as I said.

Clarification of 1965 data

Mr. Loy: Just to get this correct, the last figure you mentioned is $14,295,527. Is that intended to be added to the $32,894,245 you mentioned earlier?

General Santini: Yes, these are passengers carried from Rome and Milan to the United States, to intermediate points and to points beyond, for a total of $47,189,772, figures for 1965.

Mr. Loy: In a sense it is nice to get figures on the table. It lends an air of precision. But at the moment I am still a bit confused. I will think about those figures but in passing will say at first glance it would appear to be a relationship between the $14,295,727 and $32,894,245 of 70/30 percent.

General Santini: Maybe the percentages between the amounts is incorrect. I did them in my head.

Mr. Loy: On the other question, I was not being all that naive, and I don't understand your reply. I have just two further questions with respect to the nature of the services.

The first question, do you think it is desirable or necessary, on the theory of sound route exchanges, that you advise us of the points between Tokyo and Rome which you would expect to serve in carrying a passenger, let us say that originated in San Francisco and terminated in Rome and went via the Pacific? And second, there seems to be a question that is of some interest

Italian services between Tokyo and Rome

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to our own air carriers. Would it be your feeling that you could have a billboard - say in San Francisco - that would say "Fly Alitalia to a point some place between Tokyo and Rome"? This is a matter of some operating interest to carriers.

General Santini: Mr. Loy, maybe I said too much. Maybe these could be examined in more detail after we have your route schedule.

Mr. Loy: Mr. Ambassador, as you can tell from the puzzled expression on our faces we are having difficulty figuring how to go. As you will remember, somewhat against our better judgment, we agreed to discuss route exchanges between us without getting an understanding on the nature of the agreement under which these routes would be exchanged. We were reluctant as you will recall. Now we are trying to talk about route exchanges and are not doing very well.

We are interested in the figures that General Santini presented. Quite frankly, we think, among other things, that those figures demonstrate that it is possible to make a pretty good estimate of the 1965 dollar revenue earned by the US carriers. As we have said before, we think that those revenues were obtained under an agreement that is substantially broader in description than the one we propose in our Document 3. They also prove that the notion that it is impossible to make a meaningful evaluation of what we are proposing is untenable.

Historical data is useful

Leaving that aside for a moment, let's go back to what we discussed in Rome. You were unhappy because the agreement we had was unbalanced, it was not fair. You have made a proposal which I assume is intended to make the agreement fair and balanced. We do not have at this moment the slightest idea how you arrived at that conclusion. I have no idea why you think this particular proposition would be a fair agreement. If that would be any help, we can talk about that. But it does seem to me that if we are going to talk about route exchanges, if we are going to talk about meeting your expressed desires to make the agreement fair it is not unreasonable to ask you to explain your proposal and why it is fair. I know that, in particular, you want beyond rights. But your proposal does a lot more. It provides for a whole raft of new services. My guess, for example, is that it would permit, I am not sure about this, but think it would permit nonstop service between the United States

Discussion of Italian route requests

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and Mexico via more points by Alitalia than could be served by US carriers. That is an interesting thing to contemplate. It would add such interesting new routes as Paris/Miami, Paris/Dallas, London/Houston, Lisbon/Dallas, London/Los Angeles or San Francisco. That is quite a package. A package that has nothing to do with the beyond package I just referred to. What I am saying is that we have indicated in Rome and here our willingness to take seriously and give sympathetic consideration to your proposition that in routes the present agreement is not balanced. We have said that at this table. When we say that, we do not exclude any particular aspect of this package. I think we have gone far in talking about routes. One of us must be making things very difficult because we don't seem to get far down this route line. That is very troubling, and I, quite frankly, don't think we have much time to solve this question at this session and I don't know how to proceed the next time we meet. I am anxious to proceed but I am somewhat unclear how to do it. Unless you can enlighten us on the basic question I posed, which is on what basis we should consider your proposal as being a fair deal for us, unless we perhaps can work with this proposal in some smaller fashion, my only suggestion is that we meet again tomorrow afternoon and see where we go.

No particular route requests excluded

Ambassador Capomazza: Mr. Loy, I think I can agree with you on another point. We cannot solve anything before lunch at this session. If you are in a position to have another session this afternoon, that could be taken into consideration. I can say sincerely, and it is not because I am against mathematics, or because I am stubborn, that I think this mathematical exercise that General Santini was provoked into leads us down the wrong path. I don't think we are proceeding badly, except that we don't know what you want. We said, let's talk about routes, and we are talking about routes. You don't say a thing about what you want; you just talk about what we want. You ask us what a billboard might say. This is something we recognize, and that is that you have the right to know. If you have it, we have it too. If you give us a more detailed route on paper, omitting small towns and and villages of over 5,000 people, we have made some progress. All that you have asked and all you have said proves the soundness of our request.

Discussion of data is wrong approach

I can stop now and give you time to do that. We can wait until tomorrow morning or afternoon and then have our session. But

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I suggest you give us a new schedule and then we could get down to work and we promise to be constructive. We don't want to put any limitations on your airlines. We are in a time of expansion but we don't want to have a new agreement as indefinite as the last one. That is all I can say.

Italy requests new route document

Mr. Loy: Mr. Ambassador, we will take your last comments into consideration and I don't think we would be prepared to meet again until tomorrow afternoon. I propose 3:00 in this room if that is satisfactory with you.

Ambassador Capomazza: That is fine. Will you give us the document?

Mr. Loy: I heard what you said.

This session adjourned at 12:50 p.m.

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Hanson	X	X	X	X	X	X	X	X	X	X
Goodwin	X	X	X	X	X	X	X	X	X	X
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